

**BEFORE THE POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001**

Notice of Market Dominant Price Adjustment

Docket No. R2017-1

**COMMENTS OF THE
NATIONAL ASSOCIATION OF PRESORT MAILERS, NATIONAL POSTAL POLICY
COUNCIL, MAJOR MAILERS ASSOCIATION, and ASSOCIATION for MAIL ELECTRONIC
ENHANCEMENT
(November 1, 2016)**

The National Association of Presort Mailers ("NAPM"),¹ the National Postal Policy Council ("NPPC")², the Major Mailers Association (MMA)³, and the Association for Mail Electronic Enhancement ("AMEE")⁴, (collectively the "Joint Commenters") respectfully submit these comments upon the United States Postal Service's Notice of Market Dominant Price Adjustment Order 3565, dated October 12, 2016.

Cumulatively, the members of these organizations inject billions of pieces of First Class mail annually into the Postal automation mail stream. In doing so, they prepare their mail in order to utilize the presort discounts from commercial mail prices. In addition, the majority of these member businesses also utilize the Postal Service's Standard mail prices and discounts to market their businesses and provide other information to customers and others, and similarly mail billions

¹ NAPM is a nonprofit organization that represents mailers, both mail owners and mailing service providers who commingle, sort and prepare quality mailings inducted and compliant with work share requirements. Representing over 100 member companies mailing in 36 states, it collectively provides approximately 35% of the total First Class mail volume and over 50% of the Full Service volume. NAPM member mail service provider companies interact with and perform mailing services for tens of thousands of clients and businesses that use postal mailing products.

² The National Postal Policy Council is an association of large business users of letter mail, primarily Bulk First-Class Mail using the Automation rate category, with member companies from the telecommunications, banking and financial services, insurance, and mail services industries. Comprised of 39 of the largest customers of the Postal Service with aggregated mailings of 20 - 25 billion pieces and pivotal suppliers, NPPC supports a robust postal system as a key to its members' business success and to the health of the economy generally.

³ MMA membership is comprised of companies that serve the communications, utilities, insurance, banking, financial services, healthcare, government and cable/satellite industries. Although there has been diversion to electronic channels, these industries still rely primarily on the USPS for the delivery of the statements, invoices, remittance payments and other business communications.

⁴ AMEE has 33 member companies representing mailers, associations, and supporting vendors who have a primary interest in increasing the value and utility of First-Class Mail, and are engaged in developing or promoting technology in the area of mail electronic enhancement.

of pieces in the Standard categories. Our members strive to be not only customers of the Postal Service, but valued partners delivering high quality mail to the Postal Service with accurate addresses, high quality barcodes, and high density preparation levels, transported and entered where the Postal Service wants it, bypassing many initial processing functions.

I. First-Class Mail Rate Design

First-Class Mail letter presort mail volumes have trended more favorably for the Postal Service than Single-Piece volumes of late. Presort letters are more price sensitive and more profitable than Single-Piece letters. Presort letters on time delivery standards are achieved at greater success rates due to the effective preparation and downstream entry of mail that presort mailers provide. USPS realizes a higher unit contribution for each Presort letter relative to Single-Piece. And, of course, no mail is better prepared or less expensive to handle and process than commercial presort First Class Letters. For all of these reasons, First-Class Mail Presort Letters remains among the most profitable and important letter mail products.

For these same reasons, Joint Commenters commend the Postal Service for moving in the direction of a more efficient First-Class Mail Letters rate design in this docket. The price change for Presort Letters relative to Single-Piece letters is an appropriate recognition of the value of commercial mail. The proposed prices should encourage the use of more efficient and more profitable presort mail and perhaps dampen the diversion of physical mail into electronic alternatives.

Several aspects of the proposed price adjustment represent positive steps in the direction of a more efficient rate design. First, the Postal Service's decision to increase the price differential between Metered Letters and Single-Piece letters will help encourage small and medium-sized business mailers to use and stay in the mail, and slow any ongoing diversion. In our experience, it is a virtual tautology that better prices result in better business for the seller by enhancing its competitiveness. It will help reduce Postal Service costs because Metered Letters are a more efficient sales channel. It will also help slow the growing divergence in the unit contribution and cost coverage between Presort and Single-Piece Letters. Additionally, the separate Metered Letters rate in this docket affirms the Commission's judgment⁵ that it enables the Postal Service

⁵ *Order Resolving Technical Issues Concerning The Calculation Of Workshare Discounts*, Docket No. R2013-10 (April 12, 2012) ("Order No. 1320").at 11.

to establish a more accurate benchmark for calculating the costs avoided by First-Class Mail Presort letters. Increasing the price differential for Metered Letters allows the Postal Service additional flexibility to price the discounts for its most highly profitable First-Class Mail presort products more responsively to the market, i.e., digital competition.

Second, we commend the Postal Service for increasing the discount for 5-Digit Automation Letters. The Postal Service decision to increase the pass-through of costs avoided from 69 to 84% is an acknowledgement, and an enlightened reaction thereto, that in recent years the pass-through has diminished and failed to reflect the full value of the workshare-related avoided costs. Workshare discounts that are too small result in Presort prices that are too high. The enhanced discounts will help improve operational efficiency and lower total mailing costs: two keys to encouraging mail to stay in the system.

The increased discount for 5-Digit Automation Letters is an important first step. Joint Commenters, however, strongly urge the Postal Service to continue to move rapidly in the direction of 100% pass-through. For the reasons expressed above, that is clearly in the mutual interest of the Postal Service, mailers, other stakeholders and the public. In addition, because much of the work that Joint Commenters do to educate their customers and to help them prepare and present the most efficient mail to the Postal Service is not currently recognized in the cost models, it is critical that discounts fully reflect all modeled cost savings.

II. Full Service Intelligent Mail Discount

Joint Commenter's have made significant investments of time and money in support of the design and implementation of Full Service Intelligent Mail. Joint Commenters support the Postal Service's decision to maintain the Full Service Intelligent Mail discount for qualifying First-Class and Standard Mail products. Maintaining the Full Service Intelligent Mail discount will further adoption and enable the Postal Service, mailers, and mail service providers to take full advantage of the improved visibility into the mail stream.

III. Standard Mail Drop Ship Discounts

Joint Commenters recognize the imperative in the law, and the direction from the Commission, to bring cost avoidances to 100% in calculating discounts. We commend the Postal

Service for the sensitivity it has shown in complying with this mandate by making the adjustments it proposes to the entry discounts for DSCF and DNDC Standard Mail letters. The plan to incrementally adjust the drop ship entry discounts over the course of several price adjustments is a sensible and prudent approach that should give the industry time to absorb the change. Nonetheless, we caution that the adjustment should continue to be moderate in order to reconcile reaching the goal of 100% with the real world impact on mailers and MSPs reflected in objective 2 (predictability and stability of rates) and factors 3 (impact on mail users) and 4 (available alternatives to USPS) of 39 USC 3622(b) and (c), respectively.

Joint Commenters are concerned that a more dramatic adjustment could have negative unintended effects on the postal network that would harm service for all market dominant products. This concern is heightened because the reduction of the entry discounts closely follows a number of other significant recent changes (e.g., load leveling changes, on-going Network Rationalization initiatives). Joint Commenters are concerned that the combined effect of these changes may cause mailers to shift more mail to origin entry, which could negatively affect a range of market dominant products, including First-Class Mail. If such a shift were to be effectively encouraged, many mailers and MSPs which have made significant investments in drop-shipping will tally those investments as losses and significant additional postal expense. This will further build the case in those companies for moving more mail out of the system.

Further analysis should accompany this change to ensure that the Postal Service and the Postal Regulatory Commission can fully assess the impact of this change on service across market dominant products. For example, the Postal Service should consider surveying mailers to obtain insights on how mailer behavior might change. The Postal Service should also consider undertaking an analysis of how the network might be impacted if significant volumes of mail shift from destination to origin entry and how such impacts could affect service standards across market dominant products. Joint Commenters offer these suggestions as a trusted partner that is invested in the long-term success of the Postal Service.

Joint Commenters appreciate the Commission's consideration of these reply comments.

Respectfully submitted,

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